Genesis Exploration Ltd.

1999 Annual Report

Contents

Annual General Meeting

The Annual General Meeting of shareholders of Genesis Exploration Ltd. will be held at 3:00 p.m. (Calgary time) on May 9, 2000 in the Lakeview Room of the Westin Hotel, Fourth Avenue and Third Street SW, Calgary, Alberta. Shareholders are encouraged to attend, and those unable to do so should complete the Form of Proxy and forward it at their earliest convenience.

Copies of the Information

Circular - Proxy Statement, the Annual Information Form and additional copies of this 1999 Annual Report may be obtained from the Secretary of the Company at Suite 300, 311 Sixth Avenue SW, Calgary, Alberta, T2P 3H2; Telephone (403) 266-6900, Facsimile (403) 266-6988.

Performance
Highlights for 1999

Genesis Exploration Ltd. is a growth-oriented junior oil and natural gas company based in Calgary, Alberta committed to maximizing return on invested capital by finding and producing oil and natural gas at low cost and maintaining a healthy balance sheet. Since its inception in 1993 as a junior capital pool company, Genesis has demonstrated the ability to grow and prosper in all phases of the oil and natural gas cycle. The corporate strategy focuses upon full cycle exploration complemented by counter-cyclical acquisition and exploitation. Genesis has accumulated a significant asset base of high-impact, deep liquids-rich natural gas prospects balanced by lower risk exploration and exploitation opportunities. The Company's common shares trade on the Toronto Stock Exchange under the symbol GEX.

Gross revenue increased 194%
to $111.4 million

Cash flow increased 272%
to $55.0 million

Net income increased 179%
to $14.4 million

Production increased 111%
to average 12,054 barrels of oil equivalent per day

Oil & liquids production increased 152%
to average 4,979 barrels per day

Natural gas production increased 90%
to average 71 million cubic feet per day

Replaced oil & natural gas production over 2½ times
with total proven reserve additions of 11.4 million barrels of oil equivalent

Finding & development costs averaged $6.92 per proven
and $3.99 per established (proven + half-probable) barrel of oil equivalent bringing our three year average to $6.48 per proven and $5.18 per established barrel of oil equivalent

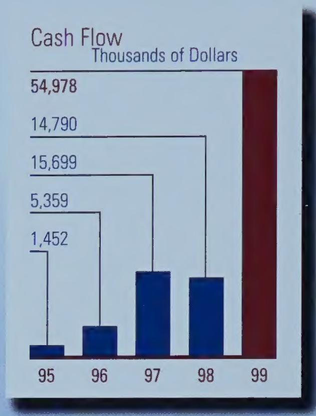
Recycle ratio increased to 2.2 times
from 1.6 times in 1998

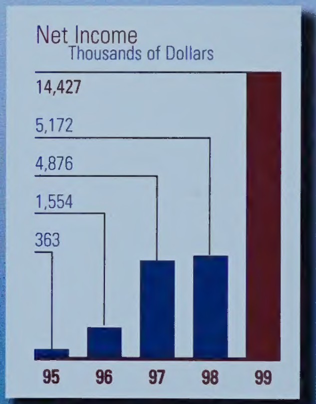
Net undeveloped land increased by 123,000 acres
to 388,000 acres

Drilled a total of 72 wells
of which 43 were exploratory. Of the total, 31 were cased as natural gas wells and 24 as oil wells for a 76% success rate

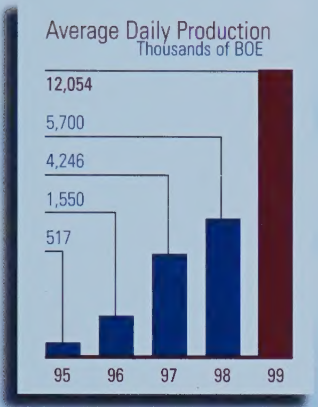
Financial Highlights

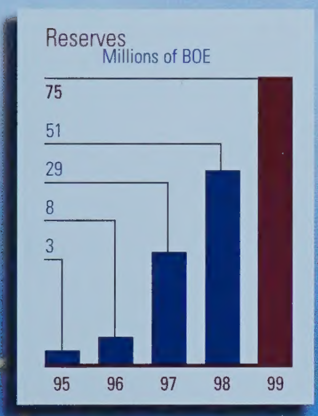
(thousands except per share)	1999	1998	Change
Gross revenues	$ 111,365	$ 37,903	+194%
Cash flow from operations	$ 54,978	$ 14,790	+272%
Per share - basic	$ 1.49	$ 0.48	+210%
- fully diluted	$ 1.40	$ 0.47	+198%
Net income before non-recurring items	$ 14,427	$ 1,892	+663%
Non-recurring items, net of deferred taxes	$ –	$ 3,280	
Net Income	$ 14,427	$ 5,172	+179%
Per share - basic	$ 0.39	$ 0.17	+129%
- fully diluted	$ 0.38	$ 0.17	+124%





Operational
Highlights



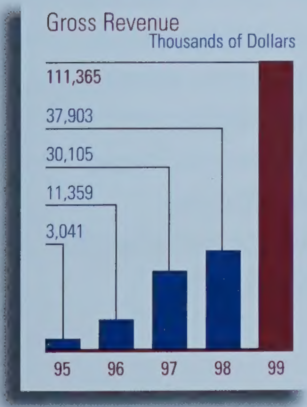


Year ended December 31	1999	1998	% Change
Natural gas (million cubic feet)	**25,823**	13,615	+90%
Per day (million cubic feet)	**71**	37	
Average selling price per mcf	$ **2.51**	$ 1.91	+31%
Oil & Liquids (thousands of barrels)	**1,817**	720	+152%
Per day (barrels)	**4,979**	1,970	
Average selling price per barrel	$ **26.18**	$ 16.42	+59%
Reserves (proven and probable)			
Natural gas (billion cubic feet)	**318**	315	+1%
Oil & Liquids (millions of barrels)	**43**	20	+118%
Net wells drilled			
- Natural gas	**20**	27	
- Oil	**15**	13	
- Dry	**14**	18	
	49	58	
Net undeveloped land holdings (*thousands of acres*)	**388**	265	+46%


GENESIS

Message to Shareholders

Despite trends in equity markets and swings in commodity pricing, your company did in 1999 what it has always done... concentrate its efforts on increasing shareholder value by growing reserves, production volumes, cash flow and earnings while preparing for opportunities in 2000 and beyond



1999 was another year of strong growth by all measures for your company... laying firm groundwork for continuing growth for 2000 and beyond.

Gross revenue increased 194% to $111.4 million. Higher oil and natural gas production volumes contributed 58% of the increase in revenues, with improved price realizations accounting for the balance.

Cash flow increased 272% to $55 million and net income rose 179% to $14.4 million. The growth in cash flow and net income translated into fully diluted per share increases of 198% and 124% respectively. The fully diluted weighted average number of shares outstanding during the year was 40.4 million compared to 34.4 million last year due to equity issues from treasury in 1998.

We achieved our 1999 average daily production target of 12,000 barrels of oil equivalent averaging 12,054 barrels of oil equivalent per day, a 111% increase from 1998. Natural gas production increased 90% to average 71 million cubic feet per day and oil and liquids production increased 152% to average 4,979 barrels per day in 1999.

Genesis added 11.4 million barrels of oil equivalent of proven reserves at a finding and development cost of $6.92 per barrel of oil equivalent and replaced oil and natural gas production over 2½ times.

Our finding and development cost of $6.92 per proven barrel of oil equivalent reserves, while higher than previous years, is amongst the best in the industry. The increase was due to the more conservative approach engineers are now taking throughout the industry to calculate qualified proven reserve additions and the capital required to move 'proven non-producing' reserves into production.

On an established basis (proven and half-probable), Genesis' finding and development cost totaled $3.99 per barrel of oil equivalent. Our three year averages equal $6.48 per proven barrel of oil equivalent and $5.18 per established barrel of oil equivalent.

Genesis' margins improved in 1999 with our recycle ratio (the annual realized field netback per barrel of oil equivalent compared to the annual proven finding and development cost) increasing to 2.2 times compared to 1.6 times in 1998, a sure sign of adding shareholder value.

Message to Shareholders

Continuing Growth

Genesis is committed to maximizing the return on capital invested by focussing on those factors which we control... increasing our reserves and production volumes... keeping our cost structure as low as possible and maintaining a healthy balance sheet.

Approximately 75% of our undeveloped land base is concentrated within west central Alberta. This region includes our West Central high-impact exploration area for deeper, liquids-rich natural gas; our Grouard shallow gas exploration play and our Sturgeon Lake light oil and gas exploitation program. As the region is generally accessible year-round, we are able to manage our business more effectively by maintaining a steady level of activity and reallocating resources to take advantage of fluctuations in commodity prices. Our interest in various gathering and processing infrastructure provides a competitive advantage by ensuring that discoveries can be quickly converted to production, cash flow and net income.

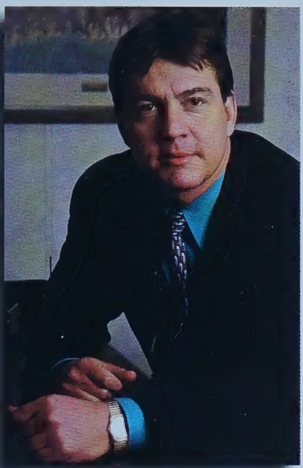
As well as a large undeveloped land base in the region, Genesis has a knowledgeable and experienced technical team that understands the area and a seismic database of 17,000 kilometres, which will serve as the catalyst for exploratory tests over the next two years.

A potential new core area is evolving in southeast Saskatchewan where we entered into a 50% joint venture with a private oil and gas company during 1999 to evaluate deep, light oil exploration along with shallow, light oil exploitation. Genesis drilled six deep wells (83% success rate) and 11 shallower wells (91% success rate), which are currently averaging 500 net barrels of oil per day with an additional 200 net barrels per day behind pipe.

The depth of our base building has not been confined to financial and operating statistics. We expanded the number of talented and enthusiastic professionals, technicians and administrators who make up Genesis. Our information and control services were enhanced in a manner compatible with our financial results and activity levels. These services include additional office facilities, computerization, timely reporting, financial and operating analysis and treasury operations.

"Genesis is committed to maximizing the return on capital invested by focussing on those factors which we control... increasing our reserve and production volumes... keeping our cost structure as low as possible and maintaining a healthy balance sheet"

– Donald J. Sabo



"Genesis is well positioned to continue growing reserves and production volumes at low costs and harvest the benefits of improved commodity prices due to its diversified portfolio of assets"

– David J. Wilson

Outlook

Our exploration focus is and will continue to be on increasing our natural gas reserves, production and opportunity base.

Genesis is well-positioned vis-a-vis the natural gas commodity marketplace as almost all of our price exposure is within Alberta at AECO. Natural gas prices are expected to remain at attractive levels for the foreseeable future due to concerns regarding tight supply and the commencement of the Alliance Pipeline later this year.

Despite the volatility and sentiment of oil pricing, the current business economics are extremely favourable and Genesis is well situated to benefit from the light oil exploration and exploitation programs now underway.

Our 2000 capital reinvestment program will total $80 million (excluding acquisitions) and encompass the drilling of 60 net wells. Average daily production is expected to increase to 15,000 barrels of oil equivalent, consisting of 87 million cubic feet of natural gas and 6,300 barrels of oil and liquids. Cash flow and net income are expected to increase to $80 million and $25 million respectively.

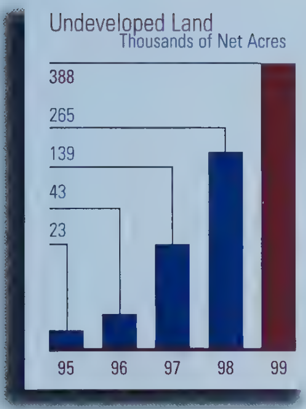
Increasing reserves and production volumes, keeping our cost structure as low as possible and maintaining a healthy balance sheet has enabled Genesis to grow and prosper in all phases of the oil and natural gas cycle. We intend to continue aggressively reinvesting in our business with the confidence that our quality asset base and operational momentum will ensure superior growth in 2000 and beyond.

David J. Wilson
President and
Chief Executive Officer

Donald J. Sabo
Chairman and
Senior Vice President

Calgary, Alberta
March 10, 2000

Review of Operations



Interests in various gathering and processing infrastructure provides a competitive advantage by ensuring that discoveries can be quickly converted to production, cash flow and net income

Approximately 75% of our undeveloped land base is concentrated within west central Alberta. This region includes our West Central high-impact exploration area for deeper liquids-rich natural gas, our Grouard shallow gas exploration play and our Sturgeon Lake light oil and gas exploitation program. As this region is generally accessible year-round, we are able to manage our business more effectively by maintaining a steady level of activity and reallocating resources to take advantage of fluctuations in commodity prices. Our interest in various gathering and processing infrastructure provides a competitive advantage by ensuring that discoveries can be quickly converted to production, cash flow and net income.

A fourth potential core area is evolving in southeast Saskatchewan, where we entered into a 50% joint venture with a private oil and gas company to evaluate deep, light oil exploration along with shallow, light oil exploitation.

Net Undeveloped Land Holdings
(thousands of acres)

December 31	1999	1998	1997
West Central	85	91	60
Grouard	186	29	–
Sturgeon Lake	23	5	–
Other	94	140	79
Total	388	265	139
Average working interest	68%	57%	43%

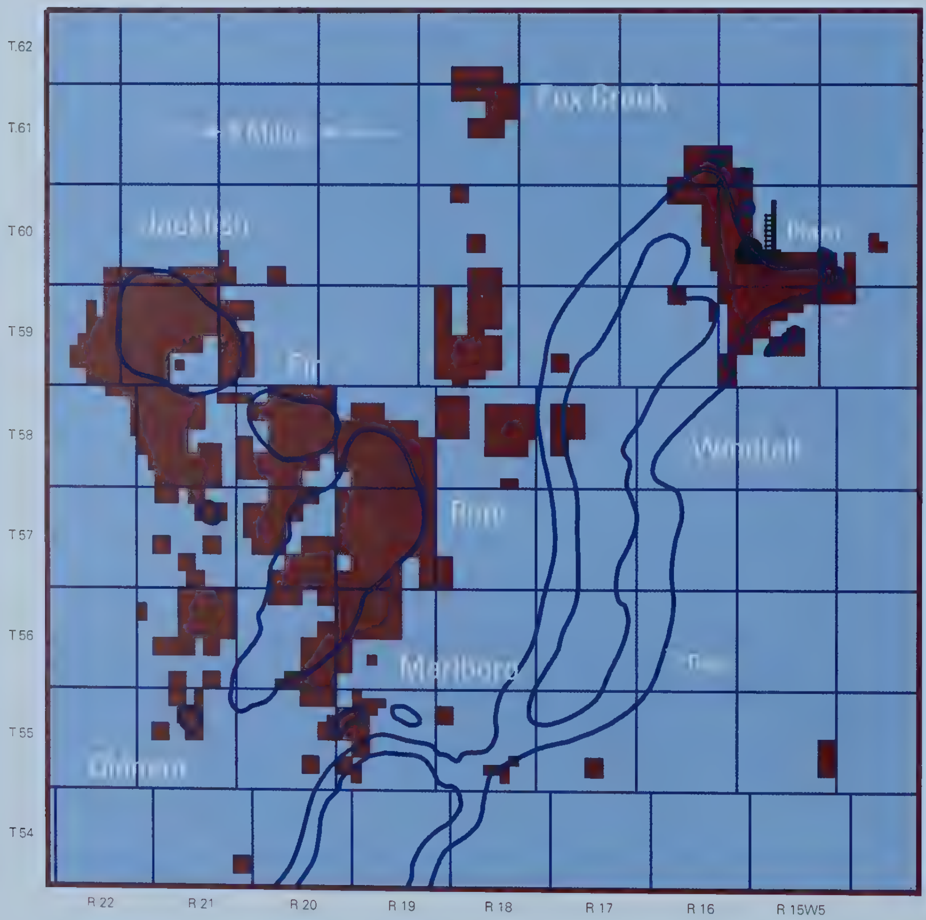
West Central
Alberta

The West Central region is our primary source of natural gas production. The area offers Genesis multi-zone, liquids-rich natural gas potential. In the past two years, we have focussed primarily on the Devonian formations at 2,600 to 3,500 metres in depth. The production potential of these wells ranges from 2 to 20 mmcf/d with associated reserves of 5 to 50 bcf. 3-D seismic programs shot in late 1998 and early 1999 have identified numerous drilling opportunities in both deep and moderately shallow formations.

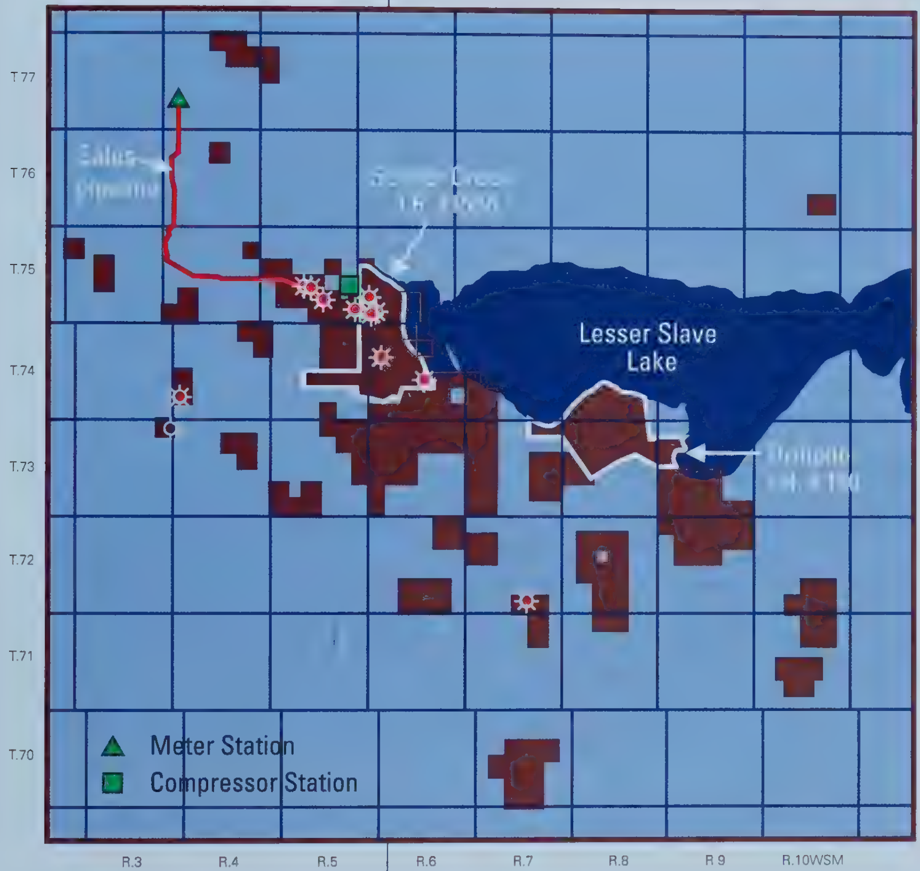
Genesis' interest in over 800 kilometres of pipeline and a 17% working interest in a gas plant, providing a processing capacity of 50 mmcf/d, will enable significant production growth at low incremental capital cost.

We anticipate drilling ten Devonian targets and four shallower Triassic or Mississippian tests in 2000.

Proven geological expertise enables Genesis to explore deep Devonian targets that result in prolific, long life natural gas discoveries



Grouard
Alberta



In the space of two years, the Grouard area has evolved from an exploration concept to become a significant natural gas operating area. In 1998, Genesis discovered two gas pools in this relatively unexplored area. The primary producing zones are the Cretaceous Bluesky and Gething formations, characterized by deliverability of 1 to 5 mmcf/d and reserves of approximately 2 to 10 bcf per well.

Following additional drilling successes, we constructed a 38 kilometre sales pipeline capable of delivering 40 mmcf/d to the Nova meter station at Heart River, and commissioned a natural gas processing facility enabling an initial 10 mmcf/d to be brought on production in December of that year.

To accommodate incremental volumes in 1999, the processing facility was twinned to provide 40 mmcf/d in capacity. Having the only processing facility and pipeline in the area gives Genesis a competitive advantage as new discoveries can be quickly tied-in and brought on production.

From one discovery well and one section of land in 1998, Genesis has accumulated an enormous strategic land base of 186,000 acres in Grouard. Genesis owns the only infrastructure in the area

Daily production from Grouard fluctuated around the 20 mmcf/d level as our technical and operational understanding of the area evolved.

Drilling in 2000 will focus mainly on exploratory drilling with 16 Bluesky tests. Six deeper Devonian tests are also planned. Additional drilling and reserve inventory was added in January 2000 with the purchase of an offsetting property.

Sturgeon Lake
Alberta

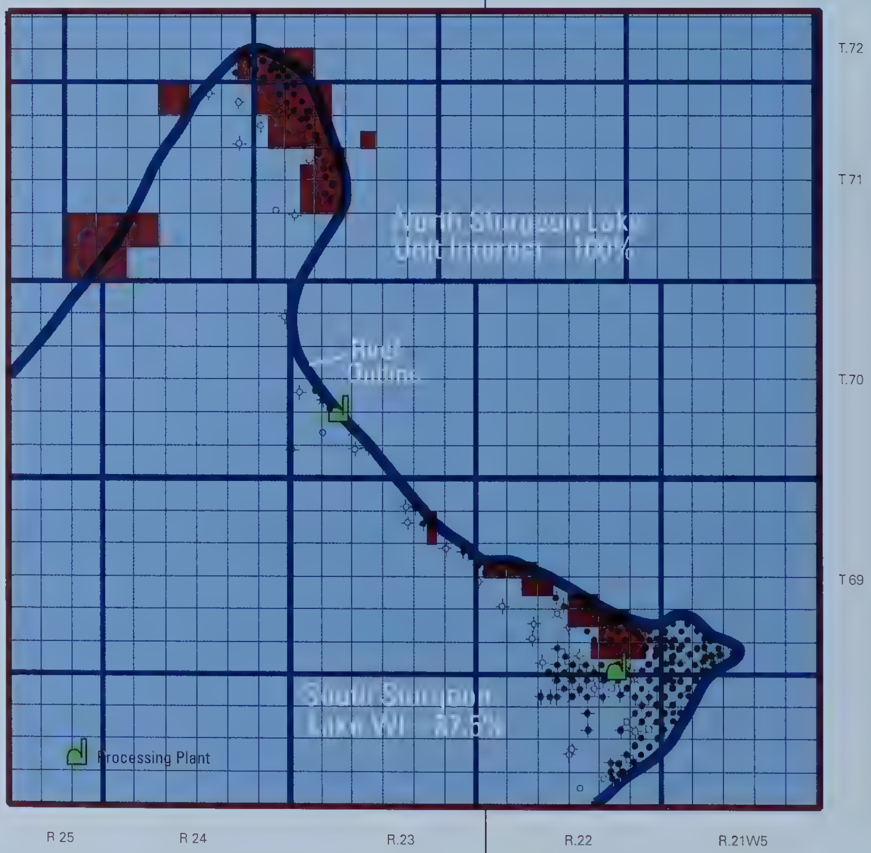
In November 1998, during the bottom of the oil price cycle, we acquired a 93% working interest in a light oil property delivering 1,650 barrels per day and one million cubic feet of gas per day from the Leduc formation. Production volumes are currently 4,500 barrels of oil equivalent per day, with natural gas accounting for approximately 20%.

Following a successful pilot program initiated in early 1999 to extract incremental reserves from an existing well by installing an electric submersible pump, an additional nine high-volume pumps were installed during the year, for a total of ten. The pumps increased production on average by 200 to 250 barrels of oil per day per well. To separate the increased water associated with the incremental oil production, Genesis added free water knockout infrastructure capable of processing up to 50,000 barrels of fluid per day. An additional 10 high-volume pumps are planned for the second half of this year or the first half of 2001.

The strategic Sturgeon Lake exploitation area was purchased in 1998 when oil prices were $11.50 per barrel. Production has increased from 1,750 barrels of oil equivalent per day then to 4,500 barrels of oil equivalent per day today

Genesis has been successful in producing both oil and natural gas from several up-hole zones never previously tested. Eight up-hole formations have been identified which will be further assessed in 2000 by new drilling and re-entering existing wells.

By piecing together several different but overlapping 3-D seismic surveys and processing as one, our new interpretation has identified a number of pockets of oil trapped above the producing Leduc zone which have not been drained by existing wells. The results of an initial three tests into these attic structures have been encouraging and nine more locations are identified for 2000.



Southeast
Saskatchewan

Six wells are planned for the first quarter which will set up additional drilling for the remainder of the year

The southeast Saskatchewan region is a new focus on light oil prospects for Genesis. During 1999, we entered into a 50% joint venture with a private oil and gas company. We drilled six deep Ordovician tests (83% success rate) and 11 shallow Mississippian tests (91% success rate), which are currently producing 500 net barrels of oil equivalent per day with an additional 200 net barrels of oil equivalent per day behind pipe.

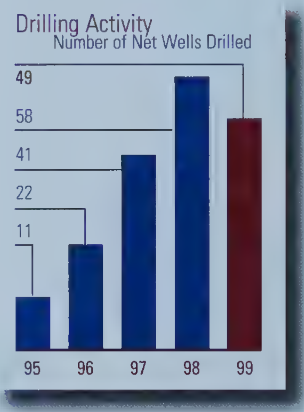
We plan to aggressively expand our position within southeast Saskatchewan through a combination of lease purchases and farm-in transactions. Six wells are planned for the first quarter which will set up additional drilling for the remainder of the year.

Review of Operations

Drilling

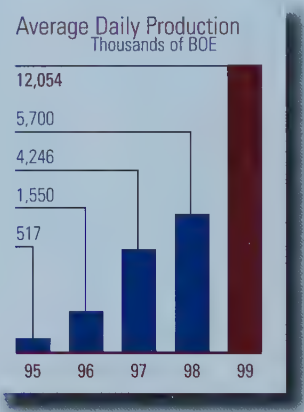
Drilling Activity
(number of wells)

	1999 Gross	1999 Net	1998 Gross	1998 Net	1997 Gross	1997 Net
Natural gas	31	20	37	27	18	15
Oil	24	15	13	13	9	9
Dry	17	14	24	18	18	17
Total	72	49	74	58	45	41
Exploratory	43	30	31	29	33	32
Development	29	19	43	29	12	9
West Central	22	10	39	23	20	17
Grouard	12	12	7	7	–	–
Sturgeon Lake	7	6	–	–	–	–
Southeast Saskatchewan	17	8	–	–	–	–
Other	14	13	28	28	25	24
Average working interest	68%		78%		91%	

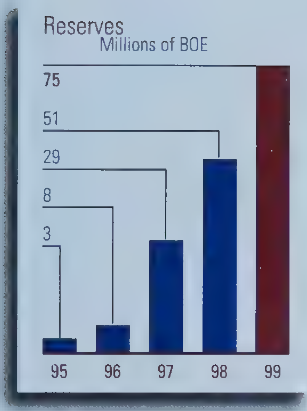


Average Daily Production Volume
(barrels of oil equivalent – boe)

Year ended December 31	1999	1998	1997
West Central	5,298	3,779	3,404
Grouard	2,665	57	–
Sturgeon Lake	3,383	299	–
Other	708	1,565	842
Total	12,054	5,700	4,246
Total annual (000's)	4,399	2,080	1,550

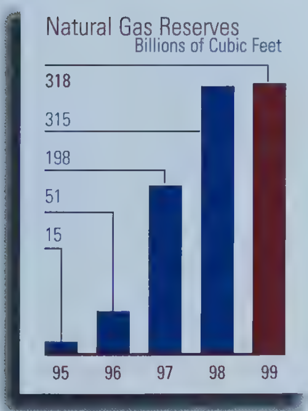


Genesis' reserves of natural gas and oil (inclusive of natural gas liquids) have been reported as at December 31, 1999 by Outtrim Szabo Associates Ltd. ("Outtrim Szabo") in a report dated February 11, 2000.



Reserves and Future Net Revenues

	Reserves		Discounted Value of Estimated Future Net Revenues (millions)		
	Natural Gas (bcf)	Oil & Liquids (mbls)	0%	10%	15%
Proven producing	133	9,429	$ 321	$ 227	$ 203
Proven non-producing	101	15,794	474	192	139
Total proven	234	25,223	795	419	342
Probable	84	17,568	198	108	85
December 31, 1999	**318**	**42,791**	**$ 993**	**$ 527**	**$ 427**
December 31, 1998	315	19,647	$ 941	$ 420	$ 341
December 31, 1997	198	8,970	$ 431	$ 159	$ 123



Reserve volumes are calculated before the deduction of royalty interests. The evaluation of future net production revenues are stated net of royalties, operating costs and future development costs and prior to any provision for income taxes, overhead and interest costs. Probable reserve values were reduced by 50% to allow for risk.

The pricing forecast used in determining the value of future net revenue is based on the December 31, 1999, Outtrim Szabo price forecast which includes an average Alberta natural gas field price for 2000 of $2.97 per mcf and US$20 per barrel WTI or $28.47 at Edmonton. Future net production revenues at December 31, 1998 and 1997 were based upon separate price forecasts utilized by Outtrim Szabo in their reports for the respective years.

Natural Gas Reserves
(billions of cubic feet – bcf)

December 31	1999	1998	1997
Proven producing	133	113	74
Proven non-producing	101	147	66
Probable	84	55	58
Total	318	315	198
Proven reserve life index (years)*	8	14	15

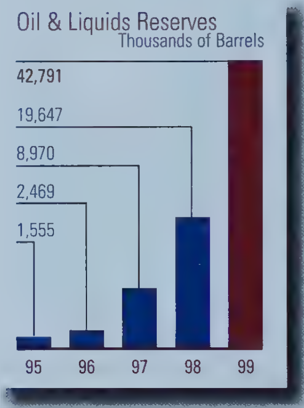
** based upon annualized fourth quarter production for each year*

Review of Operations
Reserves

Oil and Liquids Reserves
Before royalties (thousands of barrels – mbls)

December 31	1999	1998	1997
Proven producing	9,429	6,963	3,352
Proven non-producing	15,794	8,669	3,212
Probable	17,568	4,015	2,406
Total	42,791	19,647	8,970
Proven reserve life index (years)*	12	13	10

** based upon annualized fourth quarter production for each year*



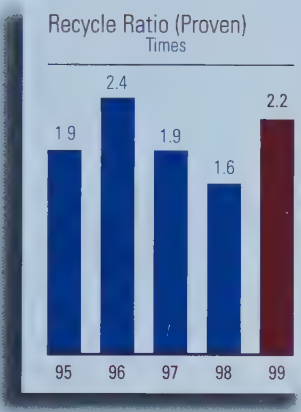
Replaced oil and natural gas production over 2½ times with total proven reserve additions of 11.4 million barrels of oil equivalent

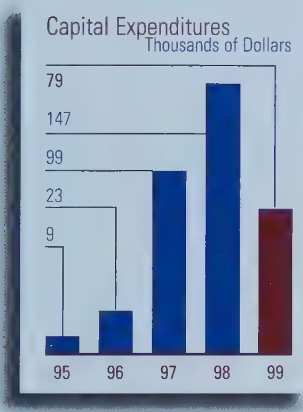
Reserve Reconciliation

	Natural Gas (bcf)			Oil (mbls)		
	Proven	Probable	Total	Proven	Probable	Total
December 31, 1996	45	6	51	2,067	402	2,469
Discoveries & extensions	84	55	139	4,628	2,081	6,709
Purchases	32	6	38	649	40	689
Revisions of prior estimates	(11)	(8)	(19)	(219)	(117)	(336)
Production	(10)	–	(10)	(561)	–	(561)
December 31, 1997	140	59	199	6,564	2,406	8,970
Discoveries & extensions	89	16	105	5,051	1,639	6,690
Purchases	34	–	34	4,930	533	5,463
Revisions of prior estimates	11	(20)	(9)	(193)	(563)	(756)
Production	(14)	–	(14)	(720)	–	(720)
December 31, 1998	260	55	315	15,632	4,015	19,647
Discoveries & extensions	45	26	71	3,258	6,284	9,542
Purchases (dispositions)	2	–	2	(310)	193	(117)
Revisions of prior estimates	(47)	3	(44)	8,460	7,076	15,536
Production	(26)	–	(26)	(1,817)	–	(1,817)
December 31, 1999	**234**	**84**	**318**	**25,223**	**17,568**	**42,791**

Production Replacement
Reserve net additions / production

	1999	1998	1997
Proven	2.6	10.9	10.0
Proven and probable	6.3	11.5	14.6





Recycle Ratio

annual realized field netback / finding and development costs

	1999	1998	1997
Proven	2.2	1.6	1.9
Proven and probable	5.4	1.6	2.8

Finding and Development Costs

(thousands)

Year Ended December 31	1999	1998	1997
Total finding and development costs (thousands)	$ 77,921	$ 146,315	$ 99,273
Proven reserve additions (mmboe)	11	23	16
Average cost per BOE	$ 6.92	$ 6.34	$ 6.32
Proven and 50% of probable reserve additions (mmboe)	20	24	19
Average cost per BOE	$ 3.99	$ 6.18	$ 5.12
Proven and probable reserve additions (mmboe)	28	25	23
Average cost per BOE	$ 2.80	$ 6.05	$ 4.31

Our three year averages equal to $6.48 per proven barrel of oil equivalent and $5.18 per established (proven and half-probable) barrel of oil equivalent.

Capital Expenditures

(thousands)

Year Ended December 31	1999	1998	1997
Property acquisitions (dispositions)	$ (6,888)	$ 49,401	$ 44,413
Lease acquisitions and retentions	4,944	6,864	9,858
Seismic evaluations	6,741	8,970	3,477
Drilling and completion of wells	48,377	57,239	32,613
Equipping, pipelining and facilities	24,747	23,841	8,912
Total finding and development costs	77,921	146,315	99,273
Head office expenditures	769	739	286
Total expenditures	$ 78,690	$ 147,054	$ 99,559

Net Asset Value

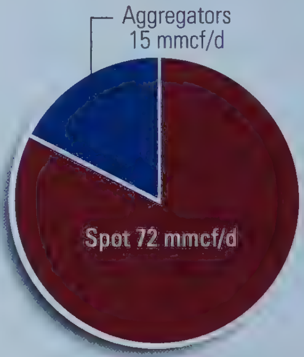
Much of the value of an oil and natural gas company is based upon the value of the reserves in the ground. Conventional accounting practice records assets at the lower of their historical cost or their value. Accordingly, a company that is successful in finding reserves at low cost does not have this value reflected in its balance sheet. The net asset value calculation attempts to portray this value by including Genesis' properties at the discounted value of its reserves as determined by Outtrim Szabo.

Year ended December 31 (millions)	10%	15%
Discounted value of estimated net future revenues*	$ 527	$ 427
Undeveloped land	23	23
Working capital deficiency	(10)	(10)
Site restoration accrual	(1)	(1)
Long-term debt	(116)	(116)
Exercise of stock options	25	25
Net asset value	$ 448	$ 348
Fully diluted shares	40	40
Net asset value per fully diluted shares	$ 11.08	$ 8.61

** Proven +1/2 Probable*

Natural gas prices are expected to remain at attractive levels for the foreseeable future

2000 Forecast Sales Volume
By Market



Marketing

Natural Gas — Genesis is well positioned vis-a-vis the natural gas commodity marketplace as almost all of our price exposure is within Alberta at AECO. Natural gas prices are expected to remain at attractive levels for the foreseeable future due to concerns regarding tight supply and the commencement of the Alliance pipeline later this year. As a result, gas priced within the Western Canada supply basin will generally receive a better price than gas 'netted' back from market areas outside of Alberta because the value of firm transportation on the pipelines leaving Western Canada is less than the full cost of the firm transportation.

Genesis has a commitment to supply a marketer on the Alliance Pipeline for 20 million cubic feet of gas per day in the first year on a netback pricing arrangement. Thereafter the commitment diminishes with deliverability from the reserves dedicated to the marketer. We have the option to dedicate additional gas supply to maintain our commitment if desired.

Crude Oil and Liquids — The average quality of our oil production is classified as light sweet crude and is sold to various marketers on a netback-pricing arrangement from Edmonton postings.

Hedging — In February, 2000 Genesis purchased a put option on 4,000 barrels of oil per day for the period April 1 to December 31, 2000 whereby we are protected from crude oil prices falling below US$24 WTI. At this time none of our natural gas sales volumes have been hedged.

Management Discussion and Analysis
of Financial Condition and Results of Operations

Results of Operations

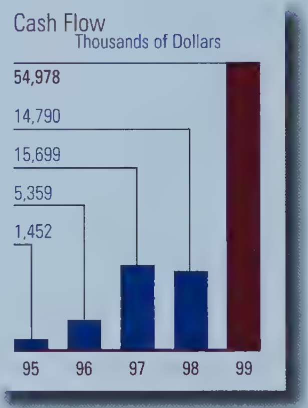
Cash Flow and Net Income
(thousands except per share)

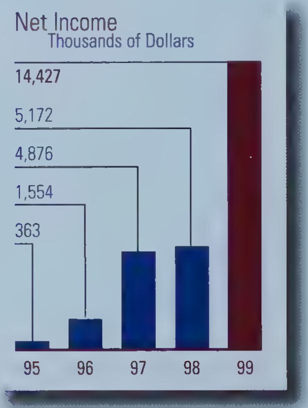
Year Ended December 31	1999	1998	1997
Cash flow from operations	$ **54,978**	$ 14,790	$ 15,699
Per share – fully diluted	$ **1.40**	$ 0.47	$ 0.62
Average per BOE*	$ **12.50**	$ 7.10	$ 10.13
Net income before non-recurring item	$ **14,427**	$ 1,892	$ 4,876
Non-recurring item, net of taxes	**–**	3,280	–
Net income	$ **14,427**	$ 5,172	$ 4,876
Per share – fully diluted	$ **0.38**	$ 0.17	$ 0.20
Average per BOE*	$ **3.28**	$ 2.49	$ 3.15

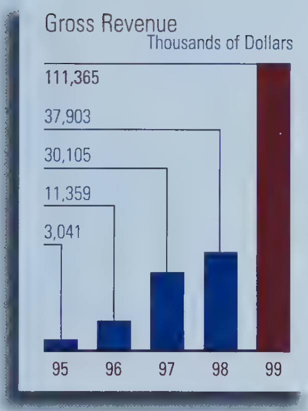
**BOE throughout this section refers to 'barrels of oil equivalent' production. Natural gas volumes are calculated on the basis of 1 mcf=1.05 gigajoule and equated to oil on the basis of 10 mcf per barrel of oil.*

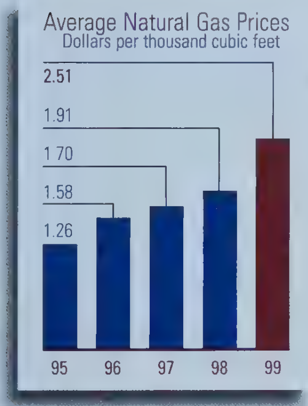
Genesis increased its 1999 cash flow from operations by 272% to $55.0 million and net income rose 179% to $14.4 million. The increases were mainly due to a 111% increase in barrels of oil equivalent production and a 52% improvement in realized field netback per barrel of oil equivalent.

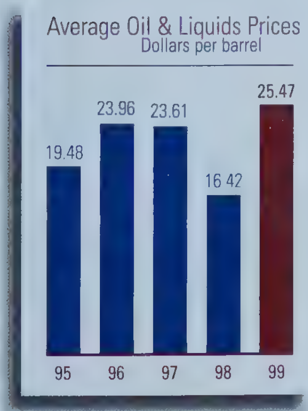
The growth in cash flow and net income translated into fully diluted per share increases of 198% and 124% respectively. The fully diluted weighted average number of common shares outstanding during the year was 40.4 million compared to 34.4 million last year due to equity issues from treasury in 1998.











Gross Revenues
(thousands)

Year Ended December 31	1999	1998	1997
Natural gas revenues	$ 65,070	$ 26,082	$ 16,855
Oil & liquids revenues	47,572	11,821	13,505
	$ 112,642	$ 37,903	$ 30,360
Oil hedging gains (losses)	(1,277)	–	(255)
Total	$ 111,365	$ 37,903	$ 30,105
Natural gas % change in revenues	+149%	+55%	+287%
Average daily volumes (mmcf)	71	37	27
Average selling price per mcf	$ 2.51	$ 1.91	$ 1.70
Oil & liquids % change in revenues	+302%	-12%	81%
Average daily volumes (bbls)	4,979	1,970	1,538
Average selling price per barrel	$ 25.47	$ 16.42	$ 23.61
Total % change in revenues	+194%	+26%	+165%
Natural gas/oil volume ratio	59/41	65/35	64/36
Average price per BOE	$ 25.31	$ 18.22	$ 19.39

Our operating revenues increased 194% in 1999 to $111.4 million from $37.9 million in 1998 as production volume increases were complemented by higher selling prices for both natural gas and oil.

Natural gas production volumes increased 90% in 1999 to 71 million cubic feet per day. This increase resulted primarily from continued exploration successes in our West Central and Grouard areas. Our average natural gas price increased 31% to $2.51 per thousand cubic feet in 1999. Natural gas prices escalated during 1999 due to concerns regarding tight supply.

Oil and liquids production increased 152% in 1999 to average 4,979 barrels of oil per day. This increase was due mainly to our high-volume pump program at Sturgeon Lake. Genesis' average oil price rose 59% to $26.18 per barrel in 1999 due to a similar rise in the benchmark WTI oil price.

Royalties
(thousands)

Year Ended December 31	1999	1998	1997
Natural gas royalties	$ 12,570	$ 4,466	$ 2,005
Oil & liquids royalties	10,887	2,083	2,815
ARTC rebates	(1,445)	(1,429)	(993)
Total	$ 22,012	$ 5,120	$ 3,827
Average price per BOE	$ 5.00	$ 2.46	$ 2.47
Average % of revenues			
Natural gas (gross)	19%	17%	12%
Oil & liquids (gross)	24%	18%	21%
Total, net of ARTC	20%	14%	13%

Our average royalty rate rose to 20% for the year compared to 14% in 1998 reflecting the sensitivity of the calculations to higher commodity prices and an increase in the number of high productivity oil wells, which attract a higher royalty rate.

Production Expenses
(thousands)

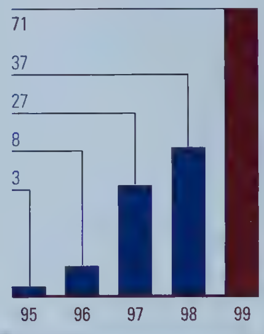
Year Ended December 31	1999	1998	1997
Production expenses	$ 23,114	$ 12,118	$ 7,754
Average cost per BOE	$ 5.25	$ 5.84	$ 5.00
Average % of revenues	21%	32%	26%

Production expenses per barrel of oil equivalent decreased 10% in 1999 to $5.25 compared to $5.84 in 1998 due to improved operating efficiency.

General and Administrative Expenses
(thousands)

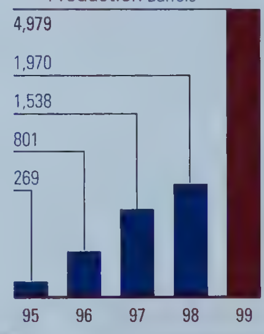
Year Ended December 31	1999	1998	1997
Gross expenses	$ 5,452	$ 3,593	$ 2,341
Operator recoveries	(1,478)	(1,528)	(692)
Net expenses	$ 3,974	$ 2,065	$ 1,649
Average cost per BOE	$ 0.90	$ 0.99	$ 1.06
Employees as at December 31			
Head office	50	33	22
Field operations	12	9	3
Total	62	42	25

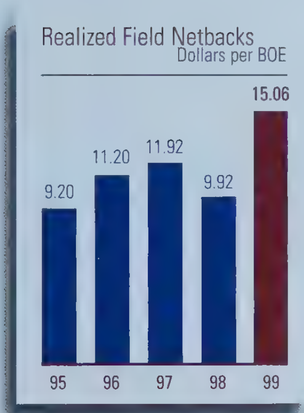
Average Daily Natural Gas Production Million Cubic Feet



Natural gas production increased 90% to average 71 million cubic feet per day and oil and liquids production increased 152% to average 4,979 barrels per day in 1999

Average Daily Oil & Liquids Production Barrels





Realized field netbacks equals gross revenues minus royalties, minus production expenses on a boe basis

Increased demand for professional and support services and additional office space, reflecting higher overall activity, helped to boost gross general and administrative expenses from $3.6 million in 1998 to $5.5 million in 1999. Operator recoveries declined slightly in 1999 due to lower eligible capital expenditures. Genesis continues to maintain an efficient overhead structure as evidenced by the reduction in our cost to $0.90 per BOE in 1999.

Interest and Financial Expenses

(thousands)

Year Ended December 31	1999	1998	1997
Interest expenses	$ 6,465	$ 3,142	$ 913
Average cost per BOE	$ 1.47	$ 1.51	$ 0.59
Average debt outstanding	$106,371	$ 59,019	$ 12,750
Average interest rate	6.1%	5.3%	7.2%

Genesis' average debt outstanding in 1999 increased to $106.4 million while our average interest rate increased to 6.1%. The net result was an increase in interest expense.

Depletion, Depreciation and Site Restoration

(thousands)

Year Ended December 31	1999	1998	1997
Depletion and depreciation	$ 26,274	$ 11,118	$ 8,309
Site restoration provision	531	210	141
Total	$ 26,805	$ 11,328	$ 8,450
Average cost per BOE	$ 6.09	$ 5.44	$ 5.45

In 1999, depletion, depreciation and site restoration expense increased by $15.5 million to $26.8 million. Higher production volumes accounted for over three quarters of the increase and the balance of the increase was due to a 12% increase in our depletion rate.

Capital Taxes
(thousands)

Year Ended December 31	1999	1998	1997
Large corporations tax	$ 691	$ 523	$ 263
Saskatchewan capital tax	131	145	–
Total	$ 822	$ 668	$ 263
Average cost per BOE	$ 0.19	$ 0.32	$ 0.17

Federal and provincial capital taxes are based on year-end equity and debt levels. In 1999, this expense increased 23% to $0.8 million as a result of growth in our capitalization.

The Company's objective is to increase reserves and production volumes at low cost. Genesis has been aggressive in accumulating a large and prospective asset base during the bottom of the price cycle

Deferred Income Taxes
(thousands)

Year Ended December 31	1999	1998	1997
On income before non-recurring items	$ 13,746	$ 1,570	$ 2,392
On non-recurring items	–	1,600	–
Total	$ 13,746	$ 3,170	$ 2,392
Average cost per BOE	$ 3.12	$ 1.52	$ 1.54
Effective tax rate*	47%	38%	32%

** excluding the tax effect on non-recurring items*

All income tax liabilities were deferred due to differences in the amortization rates for accounting and tax purposes, and historic investment levels that have significantly exceeded cash flow. As a result, Genesis has $214 million in deductions available at December 31, 1999 to claim against future taxable income.

Deferred taxes on income before non-recurring items in 1999 increased to $13.7 million compared to $1.6 million in 1998, as the effective rate of income tax increased to 47% from 38% in 1998. The increase in 1999 reflects higher non-deductible Crown royalties as a percentage of revenues and non-deductible depletion related to the Sturgeon Lake acquisition in late 1998.

Liquidity and Capital Resources

The oil and natural gas industry is characterized by highly volatile commodity prices. To remain profitable and financially viable in adverse conditions, our objective is to increase reserves and production volumes at low cost. Generally, lower unit costs of exploration, development and acquisition can best be achieved during periods of low activity induced by depressed industry conditions. Genesis has been aggressive in accumulating a large and prospective asset base during the bottom of the price cycle.

Due to the high degree of commodity price volatility, our funding for exploration and development expenditures is primarily derived from cash flow. We consider substantial levels of debt financing to be inappropriate for our organization which requires a flexible and proactive approach to opportunities.

Genesis' credit facilities consist of a $135 million demand revolving term facility. At December 31, 1999, $116 million of the term facility was drawn. As the credit facilities have been established on a conservative basis and the covenants are readily satisfied, Genesis expects to continue to extend the maturity schedules such that no principal payments will be required over the next several years.

Working capital liquidity is maintained through drawings and repayments on the bank facilities and the maintenance of unutilized credit capacity. All sales receivables and trade payables are settled on a monthly basis.

Genesis is readily able to adjust its capital expenditures should the need arise, as the majority of the ongoing capital expenditure program is directed to further growth in reserves and production volumes.

Business Risks

Genesis is subject to several key risks, including operational, financial and regulatory.

Operational Risks

Operational risks include recruiting and retaining professional staff, accessing contract services, finding and developing oil and natural gas reserves, ongoing reservoir production performance, and marketing the related production. We mitigate these risks by: employing compensation programs that provide competitive base compensation with additional short-term and long-term financial rewards tied to corporate performance; maintaining a geologically diverse, but geographically concentrated inventory of prospects; using new technologies extensively; utilizing the services of well-managed, experienced suppliers and marketers; installing modern, environmentally sensitive production infrastructure; and maintaining prudent levels of insurance.

Financial Risks

Financial risks include the availability of capital, commodity prices, the Canada/United States foreign exchange rate, and interest rates, all of which are largely beyond the control of management. Genesis' ability to influence profitability is largely determined by increasing production volumes at low cost to generate adequate cash flows to reinvest in the business.

In February, 2000 Genesis purchased a put option on 4,000 barrels of oil per day for the period April 1 to December 31, 2000 whereby we are protected from crude oil prices falling below US$24 WTI. At this time none of our natural gas sales volumes have been hedged.

Foreign exchange volatility impacts Genesis as all our reserves and production are indirectly priced in U.S. dollars. We presently have a neutral view on the Canadian dollar and accordingly are not hedging our foreign exchange exposure.

Regulatory Risks

Regulatory risks include government energy policies, taxation laws and regulations, and operational laws and regulations. The oil and natural gas industry has historically been subject to a high degree of government regulation.

Genesis supports the Canadian Association of Petroleum Producers' pro-active approach to public policy initiatives to minimize any negative impact on our operations.

In all areas of our activities, we make the maximum effort to operate safely and with sensitivity to the environment and the needs of local residents and our employees. Genesis provides training in all aspects of safety and requires all employees and contractors on Genesis property to conform to specific safety procedures.

Genesis takes a pro-active approach to environmental issues. New facilities are designed to minimize atmospheric emissions, reduce the risk of hazardous spills, dispose of wastes responsibly, and facilitate easy dismantlement and site restoration. Proposed property purchases are subject to environmental inspections. We have a continuing program of well site abandonment, clean-up and restoration which will ensure that environmental issues are resolved on a timely basis.

Business Prospects

Oil and natural gas prices are commodities affected by global and regional events of an economic, political and environmental nature. Perceived shortages or surpluses, however small, result in sharp price swings. In the past decade, the availability of capital and resultant investment programs in the energy sector have been highly sensitive to short-term expectations of oil and natural gas prices. Since 1997, deteriorating oil prices have negatively impacted industry cash flow and capital availability, forcing companies to live within their means. While oil prices have rebounded sharply in 1999, new capital is accessible only by the most efficient operators.

We expect oil price volatility to continue, influenced by OPEC production levels, overall energy consumption and depletion of non-OPEC reserves.

During this period, the Canadian oil and gas industry has experienced further restructuring and consolidation. The larger companies continue to redirect their exploration efforts away from the conventional Western Canadian Sedimentary Basin to focus on international, frontier and non-conventional prospects. This has created exploitation opportunities for the smaller companies that have been acquiring these properties. Consequently, capital has been diverted away from exploration, especially natural gas exploration which requires considerable lead time to bring on-stream.

Natural gas prices are expected to remain at attractive levels for the foreseeable future due to concerns regarding tight supply and the commencement of the Alliance Pipeline later this year. As a result, gas priced within the Western Canada supply basin will generally receive a better price than gas 'netted' back from market areas outside of Alberta because the value of firm transportation on the pipelines leaving Western Canada is less than the full cost of the subject firm transportation.

Industry activity levels are expected to remain at a sustainable level in the near future, thus minimizing cost and quality pressures resulting from capacity constraints within the service sector.

Genesis believes that the current environment for exploration investment will continue to result in the replenishment and augmentation of reserves at low finding costs.

Our 2000 capital reinvestment program will total $80 million (excluding acquisitions) and encompass the drilling of 60 net wells. Average daily production is expected to increase to 15,000 barrels of oil equivalent, consisting of 87 million cubic feet of natural gas and 6,300 barrels of oil and liquids. Cash flow is expected to increase to $80 million and net income to $25 million.

The following analysis sets out the sensitivities of Genesis' cash flow and net income to the operational and financial assumptions made in the preceding paragraph:

Sensitivities

(thousands except per share)

	Cash Flow	Per Share	Net Income	Per Share
Operational risks				
Change of 1 million cubic feet in average daily natural gas production	$ 650	$ 0.02	$ 190	$ 0.01
Change of 100 barrels in average daily oil production	$ 640	$ 0.02	$ 250	$ 0.01
Financial risks				
Change of $0.10 per thousand cubic feet in the average price of natural gas	$ 2,500	$ 0.07	$ 1,370	$ 0.04
Change of US$1.00 per barrel in the average price of oil	$ 2,660	$ 0.07	$ 1,460	$ 0.04
Change of 0.01% in the Canadian / United States foreign exchange rate	$ 830	$ 0.02	$ 460	$ 0.01

As larger companies focus on international and frontier projects, opportunities are created in the Western Canadian Sedimentary Basin for smaller players with the ability to make acquisitions. Genesis is well situated to capitalize on opportunities

Management's Report

Management is responsible for the preparation of the financial statements and for the consistency therewith of all other financial and operating data presented in this annual report.

Management maintains a system of internal controls to provide reasonable assurance that all assets are safeguarded and to facilitate the preparation of relevant, reliable and timely financial information.

External auditors, appointed by the shareholders, have examined the financial statements. The Audit committee, consisting of a majority of non-management directors, has reviewed the financial statements with management and the auditors and has reported to the Board of Directors. The Board has approved the financial statements.

Calgary, Alberta February 25, 2000

David J. Wilson
President and Chief Executive Officer

Russel D. Anderson, C.A.
Vice President Finance and
Secretary-Treasurer

Auditors' Report

To the Shareholders of Genesis Exploration Ltd.

We have audited the consolidated balance sheet of Genesis Exploration Ltd. as at December 31, 1999 and 1998 and the consolidated statements of income and retained earnings and cash flow for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1999 and 1998 and the results of its operations and its cash flow for the years then ended in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements, as at December 31, 1997 were audited by other auditors who expressed an opinion without reservation on those statements in their report dated February 19, 1998.

Calgary, Alberta February 18, 2000

PricewaterhouseCoopers LLP
Chartered Accountants

Consolidated Balance Sheet
(thousands)

(Note)		December 31 1999	1998
	ASSETS		
	Current Assets		
	Accounts receivable	$ 23,235	$ 13,163
(2)	Property, Plant and Equipment	310,517	258,101
		$ 333,752	$ 271,264
	LIABILITIES		
	Current Liabilities		
	Accounts payable	$ 33,466	$ 22,042
(3)	Site Restoration Accrual	932	528
(4)	Long-Term Debt	115,862	96,879
	Deferred Income Taxes	19,675	6,112
	SHAREHOLDERS' EQUITY		
(5)	Share Capital	137,509	133,822
	Retained Earnings	26,308	11,881
		163,817	145,703
		$ 333,752	$ 271,264

Signed on Behalf of the Board

D.J. Sabo
Director and
Chairman of the Board

W.C. Guinan
Director and
Chairman of the Audit
Committee

Consolidated Statement
of Income and Retained Earnings (thousands)

(Note)		Year Ended December 31 1999	1998	1997
	OPERATING INCOME			
	Petroleum and natural gas revenues	$ 111,365	$ 37,903	$ 30,105
	Royalties	(22,012)	(5,120)	(3,827)
	Production expenses	(23,114)	(12,118)	(7,754)
		66,239	20,665	18,524
	EXPENSES			
	General and administrative	3,974	2,065	1,649
	Interest on long-term debt	6,465	3,142	913
	Depletion and depreciation	26,274	11,118	8,309
	Site restoration provision	531	210	141
(6)	Gain on sale of investment	-	(4,880)	-
	Equity in income of affiliate	-	-	(18)
	INCOME BEFORE INCOME TAXES	28,995	9,010	7,530
	Capital taxes	822	668	263
(7)	Deferred income taxes	13,746	3,170	2,391
(8)	**Net Income**	14,427	5,172	4,876
	Retained Earnings, beginning of year	11,881	6,709	1,833
	Retained Earnings, end of year	$ 26,308	$ 11,881	$ 6,709

Consolidated Cash Flow Statement (thousands)

(Note)		Year Ended December 31 1999	1998	1997
	OPERATING ACTIVITIES			
	Net income	$ 14,427	$ 5,172	$ 4,876
	Add charges not affecting cash			
	Depletion and depreciation	26,274	11,118	8,309
	Site restoration provision	531	210	141
	Gain on sale of investment	-	(4,880)	-
	Equity in income of affiliate	-	-	(18)
	Deferred income taxes	13,746	3,170	2,391
(8)	Cash flow from operations	54,978	14,790	15,699
	Increase in accounts receivable	(2,403)	(6,271)	(2,182)
	Increase (decrease) in accounts payable	(274)	5,528	7,925
	Cash flow from operating activities	52,301	14,047	21,442
	FINANCING ACTIVITIES			
	Increase in long-term debt	18,983	75,720	16,819
	Issue of shares	3,687	47,444	64,066
	Cash flow from financing activities	22,670	123,164	80,885
	Cash available for investing activities	74,971	137,211	102,327
	INVESTING ACTIVITIES			
	Increase in property, plant and equipment	(78,690)	(115,641)	(98,878)
(2)	Corporate acquisition	-	(31,023)	-
	Site restoration expenditures	(127)	(42)	-
(6)	Proceeds on sale of investment	-	8,750	-
	Investments	-	-	308
	Increase (decrease) in capital accounts receivable	(7,669)	19	(5,237)
	Increase in capital accounts payable	11,515	726	1,480
	Cash flow used in investing activities	(74,971)	(137,211)	(102,327)
	INCREASE (DECREASE) IN CASH	-	-	-
	CASH, beginning of year	-	-	-
	CASH, end of year	$ -	$ -	$ -
	Other supplemental information:			
	Cash interest paid	$ 6,465	$ 3,142	$ 913
	Cash taxes paid	$ 733	$ 688	$ 38

December 31, 1999, 1998 and 1997 (*Tabular amounts in thousands, except per share amounts*)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared in accordance with Canadian generally accepted accounting principles which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods.

a) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, 173116 Canada Ltd. Effective March 31, 1999, 173116 Canada Ltd. was voluntarily wound up and its assets and liabilities transferred directly to Genesis Exploration Ltd. Some exploration and production activities are conducted jointly with others and, accordingly the accounts reflect only the Company's proportionate interest in such activities.

b) Property, Plant and Equipment

I) Capitalized Costs

The full cost method of accounting for petroleum and natural gas properties and related expenditures is followed. Under this method, all costs related to the exploration and development of petroleum and natural gas reserves are capitalized. Capitalized costs include those related to lease acquisitions, geological and geophysical activities, lease rentals on non-producing properties, and drilling of productive and non-productive wells. General and administrative expenses are not capitalized other than to the extent of the Company's working interest in Company-operated capital expenditure programs to which operator fees have been charged equivalent to standard industry operating agreements. Interest expense is not capitalized.

Proceeds from the disposition of petroleum and natural gas properties are accounted for as a reduction in capitalized costs, with no gain or loss recognized unless such disposition would alter the depletion and depreciation rate by 20% or more.

II) Depletion and Depreciation

Depletion of petroleum and natural gas properties and depreciation of production equipment and facilities are calculated on the unit-of-production method based upon:

- Total estimated proven developed and undeveloped reserves before royalties;
- Total capitalized costs less the costs of undeveloped properties, plus estimated future development costs of proven undeveloped reserves; and
- Relative volumes of petroleum and natural gas reserves and production converted at the energy equivalent conversion ratio.

III) Ceiling Test

The carrying amount of property, plant and equipment, net of recorded deferred income taxes and accrued site restoration, is limited to the sum of:

- Estimated future net revenues from proven reserves, less estimated future development costs of proven undeveloped reserves; and
- The cost of undeveloped properties less estimates of impairment

Less estimates of future

- Site restoration costs;
- Production-related general and administrative expenses
- Interest expenses; and
- Applicable income and capital taxes

No write-down of property, plant and equipment has ever been required under the ceiling test. The calculations and estimates in II and III are based upon sales prices, costs and regulations in effect at the end of the year.

c) Site Restoration Costs

Future site restoration costs will be expensed over the life of the remaining proven reserves. The site restoration provision represents the annual recognition of such expense based upon the production volumes of that year. The site restoration accrual represents the aggregate of such annual provisions less the aggregate of actual site restoration expenditures incurred.

d) Financial Instruments

The Company's financial instruments consist of cash, accounts receivable, accounts payable and long-term debt. The value of these financial instruments approximates their carrying value unless otherwise noted. Cash and cash equivalents include short term investments with a maturity of three months or less when taken out.

e) Hedging Transactions

The Company may utilize certain financial instruments to hedge exposures related to commodity prices and foreign exchange fluctuations on a portion of its crude oil and natural gas production. Gains and losses realized on these transactions are reported as adjustments to revenue when related production is sold.

f) Statement of Cash Flows

During the year, the Company adopted the revised standard of the Canadian Institute of Chartered Accountants with respect to presentation of cash flows. Accordingly, 1998 and 1997 figures have been restated to reflect the change in presentation. There is no change in income, cash flow, assets or liabilities as a result of this revision to the standards for presentation.

g) Share Compensation

No compensation costs have been recognized in the financial statements for share options granted to employees and directors.

2. PROPERTY, PLANT AND EQUIPMENT

Virtually all of the Company's property, plant and equipment is invested in the acquisition of petroleum and natural gas rights and the exploration for, and development and production of, oil and natural gas. All activity is conducted in Western Canada.

December 31	1999	1998
Property, plant and equipment, at cost	$ 359,932	$ 281,242
Accumulated depletion and depreciation	(49,415)	(23,141)
	$ 310,517	$ 258,101

At December 31, 1999, costs relating to undeveloped properties excluded from the depreciation calculation amounted to $23 million (1998—$20 million). Estimates of $17 million for future development costs of proven undeveloped reserves were included in the calculation of 1999 depletion and depreciation expense.

In November 1998, the Company purchased all of the issued and outstanding shares of 173116 Canada Ltd., a private oil and gas company for cash consideration of $31 million.

The transaction was accounted for as a purchase as follows:

Oil and natural gas properties	$ 31,414
Site restoration accrual	(96)
Deferred income taxes	(295)
	$ 31,023

Effective March 31, 1999, 173116 Canada Ltd. was voluntarily wound up and its assets and liabilities were transferred to Genesis Exploration Ltd.

3. SITE RESTORATION ACCRUAL

	1999	1998
Balance, January 1	$ 528	$ 264
Assumed on purchase of subsidiary	-	96
Site restoration provision	531	210
Site restoration expenditures	(127)	(42)
	$ 932	$ 528

As at December 31, 1999, the estimated future site restoration costs to be accrued over the life of the remaining proven reserves were $5 million.

4. LONG-TERM DEBT

December 31	1999	1998
Prime rate advances	$ 2,192	$ 1,550
Bankers' acceptances	113,670	95,329
	$ 115,862	$ 96,879

The Company's bank loan agreements provide for a $135 million demand revolving term facility. The credit facility may be drawn down or repaid at any time but has no scheduled repayment terms. The facility is based on the value of the Company's reserves and is subject to an annual review. Accordingly, the entire balance outstanding is classified as long-term.

The credit facility is secured by a charge on certain oil and natural gas properties and a $200 million fixed and floating charge debenture against the assets of the Company. The facility bears interest at the banks' prime rate or at money market rates plus a 0.75% stamping fee.

5. SHARE CAPITAL

Authorized

The authorized share capital consists of an unlimited number of common shares and an unlimited number of preferred shares issuable in series.

Common Shares Issued

	Number	Consideration
Balance, December 31, 1996	19,788	$ 21,350
Public share issue	7,924	61,468
Private placement	350	2,698
Employee stock option plan	1,301	2,855
Share issue expenses		(2,955)
Balance, December 31, 1997	29,363	85,416
Public share issue	6,850	48,928
Employee stock option plan	203	686
Share issue expenses, net of deferred income tax of $962		(1,208)
Balance, December 31, 1998	36,416	133,822
Employee stock option plan	824	3,687
Balance, December 31, 1999	**37,240**	**$ 137,509**

Common Shares Reserved for Issue

Stock options to acquire common shares are granted to employees and directors from time to time at exercise prices equal to the market value of the shares at the date of the grant. These options expire five years after the date of grant. Stock options issued and outstanding were as follows:

	1999	Weighted Average Price	1998	Weighted Average Price	1997	Weighted Average Price
Balance, January 1	**3,255**	**$ 5.89**	2,582	$ 5.81	2,117	$ 2.37
Granted	**1,285**	**8.17**	1,098	6.10	1,943	6.98
Exercised	**(824)**	**4.47**	(202)	3.39	(1,301)	2.19
Cancelled	**(152)**	**6.06**	(223)	5.72	(177)	4.39
Balance, December 31	**3,564**	**6.93**	3,255	5.89	2,582	5.81
Exercisable, end of year	**1,478**	**6.88**	1,686	5.53	852	6.12
Available for grant, end of year	**774**		1,908		784	
Number of employees and directors holding stock options at December 31	**66**		45		29	

The stock options vest over periods up to three years from the date of grant, and if unexercised, expire as follows:

	Number of Stock Options	Weighted Average Exercise Price	Proceeds If Exercised
2000	-	$ -	$ -
2001	120	$ 2.57	$ 310
2002	1,363	$ 6.63	$ 9,034
2003	847	$ 6.09	$ 5,156
2004	1,234	$ 8.28	$ 10,216
	3,564	$ 6.93	$ 24,716

	Options Outstanding at December 31, 1999			Options Exercisable at December 31, 1999	
Exercise Price Ranges	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$1.65 to $3.20	105	1.37	$ 2.35	105	$ 2.35
$4.09 to $5.90	879	2.99	$ 5.75	389	$ 5.76
$6.00 to $8.70	2,043	3.49	$ 6.99	984	$ 7.07
$9.00 to $10.00	537	4.70	$ 9.67	-	-
$1.65 to $10.00	3,564	3.49	$ 6.93	1,478	$ 6.88

6. INVESTMENT IN ALLIANCE

Effective January 1998, the Company disposed of its interest in the proposed Alliance Pipeline project for proceeds of $8.8 million. A gain of $4.9 million ($3.3 million after tax) was recorded on the sale of this investment.

7. DEFERRED INCOME TAXES

The provision for deferred income taxes differs from the result which would be obtained by applying the combined Canadian Federal and Provincial statutory income tax rates to income before income taxes. This difference results from the following:

Year ended December 31	1999	1998	1997
Statutory income tax rate	44.6%	44.6%	44.6%
Expected income tax	$ 12,932	$ 4,018	$ 3,358
Effect on income taxes of			
Non-deductible Crown royalties	8,911	1,999	1,487
Resource allowance	(9,025)	(2,577)	(2,263)
Non-deductible depletion	1,995	674	201
Other	(1,067)	(944)	(392)
Deferred income taxes	13,746	$ 3,170	$ 2,391
Effective income tax rate	47.4%	35.2%	31.8%

As at December 31, 1999, the following deductions were available to claim against future taxable income:

	Amount	Maximum Annual Rate of Claim (%)
Canadian exploration expense	$ 38,850	100
Canadian development expense	39,920	30
Canadian oil and gas property expense	54,045	10
Undepreciated capital cost	81,223	25
	$ 214,038	

8. NET INCOME AND CASH FLOW FROM OPERATIONS PER SHARE

	Basic			Fully Diluted		
	1999	1998	1997	1999	1998	1997
Net income per share	$ **0.39**	$ 0.17	$ 0.20	$ **0.38**	$ 0.17	$ 0.20
Cash flow from operations per share	$ **1.49**	$ 0.48	$ 0.66	$ **1.40**	$ 0.47	$ 0.62
Weighted average number of Common shares outstanding	**36,789**	31,132	24,001	**40,353**	34,387	26,583
Common shares outstanding At December 31	**37,240**	36,416	29,363	**40,804**	39,671	31,945

9. FINANCIAL INSTRUMENTS AND COMMITMENTS

There were no financial instruments related to hedging activities outstanding at December 31, 1999.

The Company has commitments with respect to leases for offices premises and certain oil and gas equipment over the next five years as follows:

2000	$ 2,148,000
2001	$ 2,148,000
2002	$ 1,160,000
2003	$ 666,000
2004	$ 278,000

The Company has a commitment to supply a marketer on the Alliance Pipeline for 20 million cubic feet of gas per day in the first year on a netback pricing arrangement. Thereafter the commitment diminishes with the deliverability from the reserves dedicated to the marketer. The Company has the option to dedicate additional gas supply to maintain the commitment.

10. UNCERTAINTY DUE TO THE YEAR 2000 ISSUE

The Year 2000 Issue arises because many computerized systems use two digits rather than four digits to identify a year. Date sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. Although the change in date has occurred, it is not possible to conclude that all aspects of the Year 2000 Issue that may affect the Company, including those related to customers, suppliers, or other third parties have been fully resolved.

Five Year Summary

Financial *(thousands except per share amounts)*

Year ended December 31	1999	1998	1997	1996	1995	5 year Compound Growth
Gross revenues	$ 111,365	37,903	30,105	11,359	3,041	146%
Cash flow	$ 54,978	14,790	15,699	5,359	1,452	148%
Per share (fully diluted)	$ 1.40	0.47	0.62	0.32	0.13	81%
Net Income	$ 14,427	5,172	4,876	1,554	363	151%
Per share (fully diluted)	$ 0.38	0.17	0.20	0.10	0.03	89%
Capital expenditures	$ 78,690	146,664	98,878	23,208	8,626	74%
Total assets	$ 333,752	271,264	132,945	34,807	11,985	130%
Long-term debt	$ 115,862	96,879	21,159	4,340	700	259%
Shareholders' equity	$ 163,817	145,703	92,125	23,182	7,989	113%
Number of common shares						
Weighted average (fully diluted)	40,353	34,387	26,583	17,684	12,044	36%
Outstanding (fully diluted)	40,804	39,671	31,945	21,905	14,053	31%
Market value per share						
High	$ 11.00	8.20	9.60	5.30	1.35	69%
Low	$ 4.10	4.50	4.75	1.18	0.80	50%
Close	$ 9.25	5.60	6.20	4.90	1.15	68%
Share Trading Volume	24,835	10,216	13,701	12,212	3,411	64%

Operating

	1999	1998	1997	1996	1995	5 year Compound Growth
Production						
Natural gas (bcf)	26	14	10	3	1	126%
Per day (mmcf)	71	37	27	8	3	
Average selling price per mcf	$ 2.51	$ 1.91	$ 1.70	$ 1.58	$ 1.26	
Oil & Liquids (mbls)	1,817	720	561	292	98	108%
Per day (bbls)	4,979	1,970	1,538	801	269	
Average selling price per bbl	$ 25.47	$ 16.42	$ 23.61	$ 23.96	$ 19.48	
Combined (mboe)	4,399	2,080	1,550	567	189	120%
Per day (boe)	12,054	5,700	4,246	1,550	517	
Average selling price per boe	$ 25.60	$ 18.22	$ 19.59	$ 20.08	16.11	
Reserves (proven and probable)						
Natural gas (bcf)	318	315	198	51	15	115%
Oil & Liquids (mmbls)	48	20	9	3	2	115%
Combined (mmboe)	75	51	29	8	3	115%
Net wells drilled						
Natural gas	20	27	15	5	3	
Oil	15	13	9	12	7	
Dry	14	18	17	5	1	
	49	58	41	22	11	
Net undeveloped land (thousands of acres)	388	265	139	43	23	103%
Number of employees						
Head Office	50	33	22	16	7	
Field	12	9	3	1	0	
	62	42	25	17	7	70%

Directors

Donald J. Sabo
Chairman of the Board
and Senior Vice President
Genesis Exploration Ltd.
Calgary, Alberta

William C. Guinan
Partner
Borden Ladner Gervais LLP
Calgary, Alberta

David J. Wilson
President and Chief
Executive Officer
Genesis Exploration Ltd.
Calgary, Alberta

T. Alan Gordon
Independent Businessman
Toronto, Ontario

Eldon A. McIntyre
President
Jarrod Oils Ltd.
Calgary, Alberta

Members of Board of Directors' Committees

Messers. Guinan (Chairman), McIntyre and Wilson are members of the Audit Committee

Messers. Gordon (Chairman), Guinan and McIntyre are members of the Compensation Committee

Messers. Guinan (Chairman), Gordon and Sabo are members of the Corporate Governance Committee

Officers

David J. Wilson, P. Tech.
President and Chief
Executive Officer

Russel D. Anderson, C.A.
Vice President Finance
and Secretary-Treasurer

Michael D. Charles, P.Land
Vice President Land,
Acquisitions and
Divestitures

Donald J. Sabo, P. Geol.
Chairman and Senior Vice
President

Alan G. Bunn, P. Geoph.
Vice President Exploration

Stephen R. Horner, C.A.
Vice President Corporate
Development

Auditors
PricewaterhouseCoopers
LLP

Bankers
National Bank of Canada
Royal Bank of Canada
Bank One Corporation

Evaluation Engineers
Outtrim Szabo
Associates Ltd.

Legal Counsel
Borden Ladner Gervais LLP

Stock Exchange
Toronto Stock Exchange
Trading Symbol: GEX

Transfer Agent & Registrar
Montreal Trust Company
of Canada

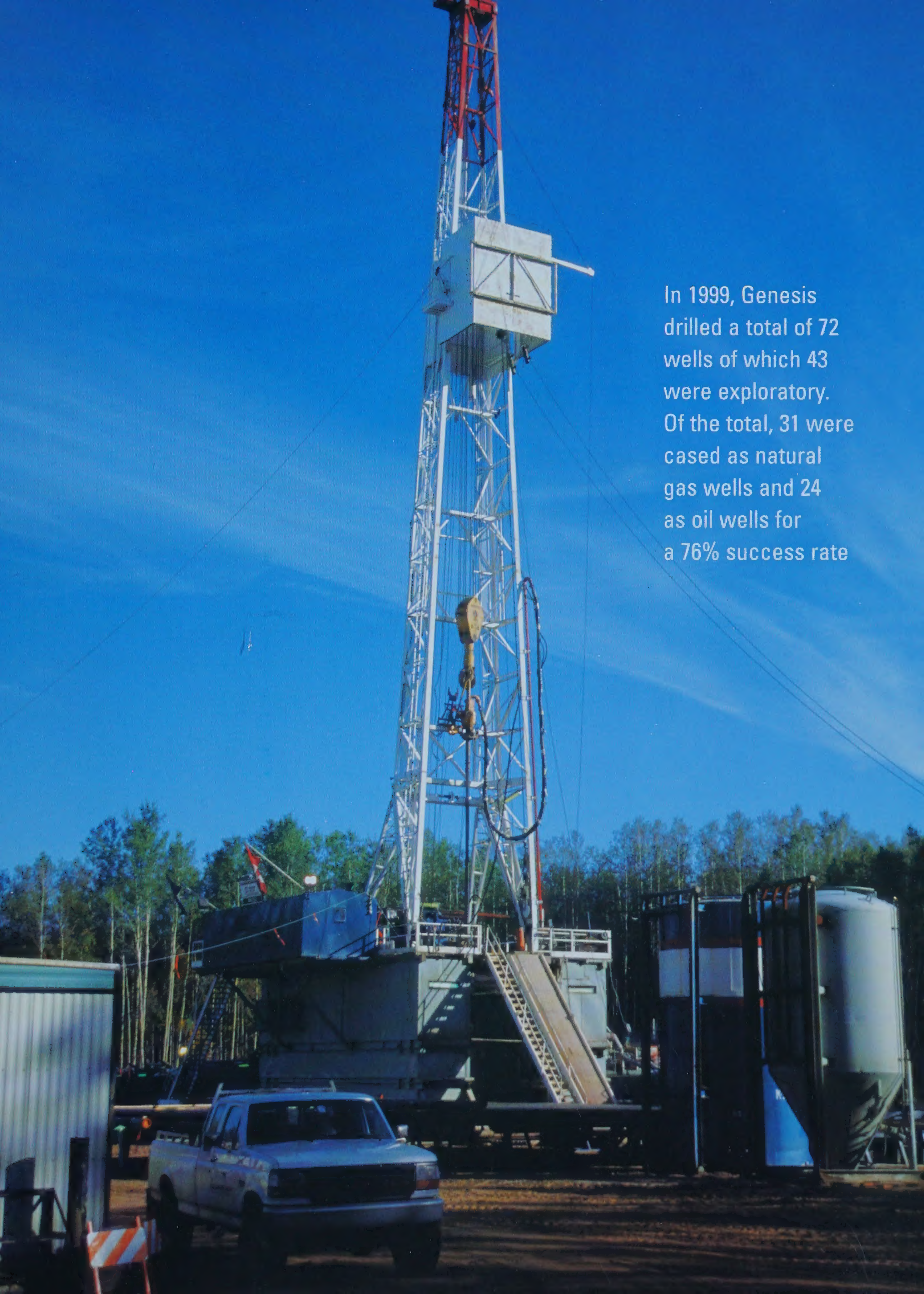
Head Office
Suite 300,
311 Sixth Avenue, S.W.
Calgary, Alberta
T2P 3H2
Tel (403) 266-6900
Fax (403) 266-6988
Website:
www.genesisexp.com
email:
info@genesisexp.com

Selected Abbreviations

bbls	barrels
mbls	thousands of barrels
mmbls	million barrels
bopd	barrels of oil per day
GJ	gigajoule
mcf	thousand cubic feet
mmcf	million cubic feet
bcf	billion cubic feet
mmcf/d	million cubic feet per day
boe	barrels of oil equivalent
mboe	thousand barrels of oil equivalent
mmboe	million barrels of oil equivalent
WTI	West Texas Intermediate

Natural gas volumes are calculated on the basis of 1 mcf = 1.05 GJ

Natural gas is equated to oil on the basis of 10 mcf per barrel of oil



In 1999, Genesis drilled a total of 72 wells of which 43 were exploratory. Of the total, 31 were cased as natural gas wells and 24 as oil wells for a 76% success rate

GENESIS

Exploration Ltd.

Suite 300, 311 Sixth Avenue, S.W.
Calgary, Alberta T2P 3H2
Tel (403) 266-6900 Fax (403) 266-6988
Website: www.genesisexp.com
email: info@genesisexp.com